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SUBJECT: FINANCE MINISTER FRETS ABOUT THE UPCOMING BUDGET,
HIS OWN POLITICAL FUTURE

Classified By: Ambassador Patricia Butenis, reason para 1.4 d.

11. (C) Summary: According to Asian Development Bank (ADB) ResRep Hua Du, Finance Minister Saifur Rahman is frustrated by his declining influence as a senior advisor to the PM. He told Du that he wants development partners to know that he understands the need to act on key issues, like cutting energy subsidies and bringing the Tata proposal to closure, but the PM demurs. On the budget he will present to Parliament on June 8, political considerations will be preeminent even though some measures could send the economy into a tailspin. The IMF ResRep termed the anticipated budget "fictitious with little relationship to reality." Saifur Rahman, embroiled in a very public intra-BNP dispute that involves his notorious BNP MP son and the Prime Minister's son, Tarique Rahman, reportedly asked, "Why should I stay if I can,t influence final outcomes?" End summary.

12. (C) On June 5, USAID Mission Director attended a hastily-called meeting at the residence of the ADB ResRep Hua Du, along with World Bank ResRep Christine Wallich, IMF ResRep Jonnathan Dunn, and Acting British High Commissioner Stephen Bridges. The topic was Du's meeting the previous afternoon with Finance Minister Saifur Rahman.

13. (C) According to Du, Rahman vented his frustration with a decision-making process that he said could lead the country to economic disaster. He mentioned such problems as the BDG,s stance on energy tariffs, its borrowing strategy to cover energy import bills, the lack of movement on the Tata mega-investment proposal, the Asia Energy coal project proposal and an associated ADB funded rail link, a proposed gas pipeline from Burma to India, and the 2006-2007 budget due to be presented to Parliament on June 8.

14. (C) On energy, Rahman recalled that he has repeatedly tried to get PM Khaleda Zia to approve incremental tariff increases to minimize the budget shock of world oil prices, but Zia listened to others and now the BDG is faced with mounting energy bills it cannot cover. He put the shortfall between energy import costs and sales revenue at about \$43 million per month, adding the BDG can cover only one third of that deficit. The tariff increase now before the PM is just 10%. PM Zia, he said, went to Kuwait to negotiate new loans for energy and deferred payment of around \$1 billion in loans coming due. The IMF ResRep interjected that while local media reported agreement on deferred payments, his sources indicate the Kuwaitis delayed and are not likely to take any

final decision. (Note: The Kuwaiti emir is due to visit Dhaka June 10-11, which is fueling press speculation that Kuwait will help on energy.)

15. (C) Turning to the proposed Tata project, Rahman said the gas price is still not totally settled, but the proposal is much better and should be moved forward because of its overall benefit to the national economy. The Asia Energy coal project is in relatively better shape with the coal policy on the PM's desk and likely to be approved, but there are still issues with gas pricing that need to be worked out in negotiations. The biggest remaining obstacle, he said, may be the influential Minister of Health and his close ties to the Chinese, who contend that their coal project agreement gives them extraction rights in the area Asia Energy is interested in. However, the Chinese have made little progress in actually extracting coal from other areas where they hold rights, so the PM and others may be inclined to go with Asia Energy.

16. (C) Rahman expressed frustration over what he called a missed opportunity to obtain agreement on a Burma-India gas pipeline transiting Bangladesh. The cabinet, he said, had agreed the PM would discuss the pipeline during her recent trip to India and indicate the BDG was prepared to drop its precondition of a 17-km Indian transit corridor between Nepal and Bangladesh. However, the issue was never brought up by the Indians, so the Bangladeshis decided not to raise it either. The Indian commerce minister later told his Bangladeshi counterpart that the GOI had no idea the BDG might drop its precondition and therefore had decided to ignore the issue. Rahman blamed forces seeking to undermine his authority for "dropping the ball" on the pipeline.

17. (C) Rahman stated that he tried to align the upcoming budget with the recently-approved Poverty Reduction Strategy Paper (PRSP), but with only limited success. Political forces are against him, he said, and while he wanted to reduce the Annual Development Plan (ADP) by 30%, he was forced instead to increase it by 30%, even though there are insufficient revenues to support that level of spending. The IMF ResRep characterized the anticipated budget as politically motivated and "fictitious with little semblance to economic realities." Revenue targets are grossly overstated, official development assistance and foreign direct investment amounts are highly inflated, and the ADP cannot be supported by either available resources or implementation capabilities.

18. (C) Asked about his future plans, Rahman told Du that he intends to present the budget, but as to his future in the government, "Why should I stay if I can't influence final outcomes?"

19. (C) The IMF ResRep stated his concerns over what he saw as the BDG's short-term approach to economic decision-making. With the 10% proposed energy tariff increase, the IMF, he said, could not recommend continuing with its approximately \$100 million credit for the BDG, which means the WB's Development Support Credit of around \$200 million could also not be presented to its board. The WB ResRep added this would jeopardize its \$200 million education activity, and the ADB followed that its \$100 million rail credit was also at risk. There was broad concern that the BDG might resort to draining its foreign exchange reserves to pay import bills, which would deny it access to IMF and WB credits to backfill. Moreover, remittances would be insufficient to cover the deficits. Borrowing externally for the BDG would be hard and expensive given the extremely high political risk premium it would have to pay, and would further exacerbate the BDG's financial woes next year.

110. (C) Comment: Rahman is embroiled in a nasty and public dispute with a BNP MP from his own Sylhet area, largely as a reflection of growing tensions between old guard BNP leaders like Rahman and the young Turks clustered around PM son and heir apparent Tarique Rahman. Another factor is the

notoriety of Saifur Rahman's son, Nasser Rahman, a BNP MP who has been implicated in large-scale corruption and other misdeeds. Saifur jealously defends his son, so staying on in BNP to protect him must be an important consideration for him. Regardless of Saifur's future, and whether he would really abandon PM Zia at this sensitive stage of her administration, or whether his problematic health might be a factor, there is no question that BDG inaction is making a bad fiscal situation worse, especially on energy prices. Our multilateral and diplomatic colleagues agree that economic, national interest arguments will make little headway with the election-focused BNP, but it is important that we register our concerns and press for corrective action. Ambassador did this June 6 with Home Minister Babar (who took the points, and then just said, "There's an election coming up"). The Ambassador will make the same points when she calls on the Minister of Health on June 8th. We are also requesting an appointment for Ambassador with the PM on this matter to underscore the gravity of our concern.

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